Broadening the Dialogue on Housing Affordability

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Beginning last year, Bank of America officially identified housing affordability as its top priority issue in California as a whole, and in all of the state's individual markets, including Los Angeles. That move recognized the fact that the state is facing a true crisis in housing affordability that cuts across all economic and geographic boundaries and is serious enough that, if not successfully addressed, has the potential for bringing California's remarkable economic growth engine grinding to a halt.

According to the California Building Industry Council, the state ranks 49th out of 50 in terms of its home ownership rate, with only 58 percent of Californians able to own a home, compared to 70 percent nationally. And the situation is worse in Southern California than anywhere else. Los Angeles County was the nation's least affordable housing market in 2006, with only 1.9 percent of homes being sold at prices that were affordable to residents earning the county's median income. Orange County was the nation's second least affordable market, at 2.5 percent.

The number of people unable to afford a home has put increased pressure on the rental market as well, resulting in higher rents and occupancy levels and an increase in the homeless population. The California Department of Housing and Community Development estimates that a worker earning the minimum wage would have to have the equivalent of three full-time jobs, just to be able to afford the rent on a medium-priced two-bedroom home. The homeless population of Los Angeles County was estimated to be nearly 90,000 in 2005, with 88 percent unsheltered each night. A new count was conducted by the LA Homeless Services Authority in January 2007, and we're waiting to see the results of that.

The housing affordability crisis has practical ramifications that touch nearly everybody in the Southland. Businesses can't compete for the best employees and our schools and universities can't attract high quality faculty, if people can't afford to purchase homes. Emergency first-responders like police, firefighters, nurses and ambulance drivers are having to live so far away from where they work that they might not even be able to respond in a timely manner when disaster strikes. Workers are commuting to Los Angeles from as far away as the Inland Empire, which interferes with their family life and responsibilities and contributes significantly to carbon emissions that cause global warming. Ethnic communities have issues to contend with in addition to those faced by the general population. Families worry about how their kids are going to be able to join the financial mainstream when they grow up. And every day, marginal income earners get pushed out of the housing market altogether and join the ever-growing and costly to serve ranks of the homeless.

The housing affordability crisis touches a broad range of Angelenos, and we believe that the key to addressing it successfully is to engage the broadest possible range of stakeholders, so that we can expand the dialogue and bring fresh ideas to the table.

Too often, the discussion about a potential housing opportunity in a market like Los Angeles ends up in a debate between developers and environmentalists. We're working to get business owners, educators, minority advocates, labor representatives and other individuals and organizations that have a stake in creating affordable housing involved, in order to tip the balance in favor of increasing the inventory. We recently sponsored a series of "Growth Dialogues" organized by the California Center for Regional leadership. People from all walks of life participated. Here in Los Angeles, as well as in every market across the state, housing affordability was identified as a top concern. The level of dialogue was broad, inclusive, and focused on the need to increase both the inventory and housing choices, and address factors like entitlements, land use planning, and fees, which are driving up the cost of creating new housing.

It's also critical to engage policy makers at the state and local levels, to keep housing affordability top of mind among those who set priorities for addressing public policy issues, and ensure that it doesn't get "buried" when other issues arise that appear to be more pressing. To that end, we supported the affordable housing bonds in last November's election for both California and Los Angeles. We're also working with government and community leaders both locally and statewide, to find ways to generate community support for development that sometimes becomes stifled by so-called "NIMBYs" –neighborhood opposition from residents who are concerned about possible negative impacts on their quality of life.

Environmental interests must also be considered, in order to avoid what former state Business, Transportation and Housing Department director Sunne McPeake calls "dumb growth." To that end, Bank of America has recently announced a sweeping $20 billion national commitment to environmental standards and practices that we hope will serve as a model for responsible business practices. These include creating customized financial solutions for commercial real estate clients who are developing and implementing environmentally sustainable designs and creating projects that will qualify for LEED certification, and offering price reductions on mortgages for homes that meet ENERGY STAR specifications.

The housing affordability crisis is likely to get worse before it gets better. Home prices have started to stabilize in California in recent months, but that doesn't mean they have become more affordable. In fact, in Southern California, we're seeing increasing numbers of borrowers who are unable to close their loans because appraisals are coming in lower than expected. So even though the demand is there and prices have stopped climbing precipitously, people are still having trouble affording homes.

At the lower end of the home buying spectrum, where marginal borrowers had gotten in the door with costly "sub-prime" loans or exotic variable-rate loans that they can no longer afford, we're starting to see a significant rise in delinquency and foreclosure rates. Some borrowers who might have gotten into subprime products because they didn't have a credit history will likely be "rescued" by being able to convert to less costly conventional mortgages now that they have established a repayment track record. On the other hand, some of the major subprime lenders are having trouble moving their product on Wall Street, as investors continue to be wary about the long-term value of the underlying assets. The resulting tightening of credit makes mortgages still more costly for those least able to afford them and pushes still more potential homeowners out of the market.

At the end of the day, the only thing that's going to make housing more affordable is creating more of it. California needs to add approximately 220,000 new housing units each year just to keep up with our population growth. And we haven't hit that mark since 1989. Although it slowed somewhat last year, the net population gain topped 100,000 in each of the two previous years, just for Los Angeles County. So the housing shortfall is particularly acute in the Southland. Clearly we need to change the framework of the discussion in order to avoid falling even further behind. We believe that the best way to do that is to get everybody who has a stake in this issue around the table so we can start talking – and more importantly, listening – to each other.